

California

# Dairy Review

*A publication serving the California dairy industry for over 10 years*

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## Season's Greetings to All



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California Department of Food and Agriculture  
A.G. Kawamura, Secretary

# Production, Prices, Quota Transfers, Alfalfa

## October Milk Production

Milk production in California for October 2006 totaled 3.2 billion pounds, up 2.4 percent from October 2005. USDA's estimate for U.S. milk production for October 2006 in the 23 major dairy states is 13.7 billion pounds, up 2.1 percent from October 2005. Production per cow in the 23 major states averaged 1,656 pounds for October, 19 pounds more than October 2005.

## Minimum Class Prices

Statewide average hundredweight prices

Class	Oct	Nov	Dec
1	\$13.71	\$13.22	\$13.48
2	\$11.45	\$11.45	N/A
3	\$11.29	\$11.29	N/A
4a	\$11.02	N/A	N/A
4b	\$11.40	N/A	N/A

## Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Oct	Nov	Dec
Phoenix, Arizona	\$14.77	\$14.75	N/A
Southern California	\$13.85	\$13.35	\$13.61
Portland, Oregon	\$14.32	\$14.30	N/A
Northern California	\$13.57	\$13.08	\$13.34
Boston (Northeast)	\$15.67	\$15.65	N/A

## Quota Transfer Summary

For October 2006, five dairy producers transferred 1,140 pounds of SNF quota. October quota sales averaged \$502 per pound of SNF (without cows), average ratio of 2.42. For November 2006, four dairy producers transferred 8,457 pounds of SNF quota. November quota sales averaged \$502 per pound of SNF (without cows), average ratio of 2.46.

## Alfalfa Update: November

Northern California: Premium and Supreme alfalfa were steady in a light test with good demand but light supplies. Fair and Good alfalfa was steady in a light test with moderate demand and moderate to light supplies. Retail and Stable hay was steady with good demand and moderate supplies. Hay production is finished with most hay supplies sold or spoken for. Grain prices are a hot topic right now.

Southern California: Supreme and Premium alfalfa was not well tested with good demand but no supplies. Fair and Good alfalfa was steady in a light test with moderate demand supplies. Retail and stable hay was steady with good demand and moderate supplies - some hay coming out of barns now. Dairies still buying on an as needed basis.

## Supreme Hay Prices

Statewide average prices per ton

Area	10/27	11/3	11/10	11/17
Petaluma	\$176-205	\$181-190	\$181-190	N/A
North Valley <sup>1</sup>	\$175-200	\$175-200	\$175-200	\$175-200
South Valley <sup>2</sup>	\$187-210	\$175-200	\$175-205	\$175-195
Chino Valley	N/A	N/A	N/A	N/A

<sup>1</sup>North Valley is Escalon, Modesto and Turlock areas.

<sup>2</sup>South Valley is Tulare, Visalia and Hanford areas.

## Alfalfa Hay Sales/Delivery

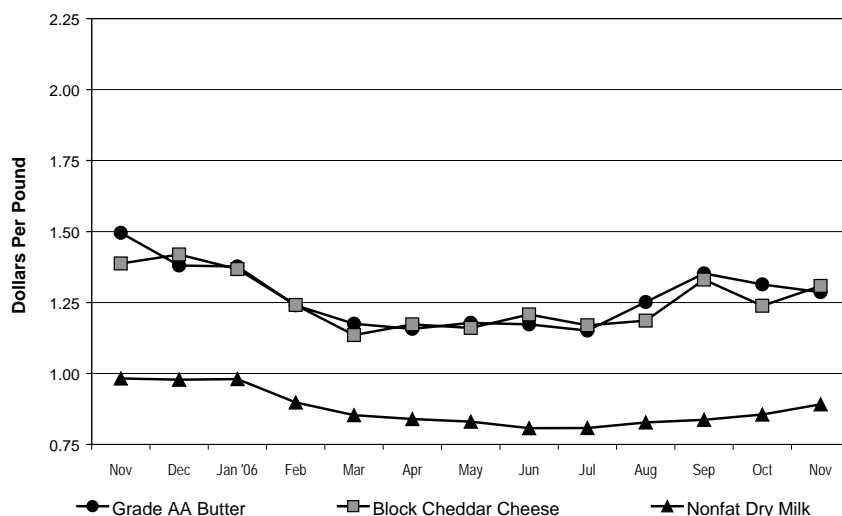
	September	October
Tons Sold <sup>1</sup>	148,856	146,166
Tons Delivered <sup>2</sup>	63,645	88,819

<sup>1</sup> For current or future delivery.

<sup>2</sup> Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

**Grade AA Butter, Block Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Class 1 Milk Prices**




## City of Tulare Starts New Power Plant Venture Utilizing Milk-Processing Waste

*A California wastewater treatment plant will use renewable fuel from dairy-processing waste to generate electricity.*

The City of Tulare has chosen Connecticut-based FuelCell Energy's Direct FuelCell (DFC) power plant for its water treatment plant. Because DFC power plants generate electricity without combustion, they dramatically reduce harmful emissions of gas and particulates while generating reliable power right where it is needed.

FuelCell Energy, Inc. will supply an ultra-clean power plant that will run on a renewable supply of fuel from dairy-processing waste, generating electricity to run a municipal wastewater treatment plant serving California's San Joaquin Valley region.

The 750-kilowatt power plant, consisting of three direct fuel cell units, will be installed in spring 2007 to provide electricity for the wastewater treatment plant. In addition, surplus heat generated from this operation will be used to generate the gas to be used as fuel, substantially boosting the facility's overall energy efficiency. 

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## Dairy Council Appointments

CDFA recently conducted nomination and preference voting procedures in order to receive industry input for filling four of the twelve producer positions and four of the twelve handler positions on the Dairy Council of California. Based on these procedures, CDFA has appointed the following individuals to serve new terms on the Dairy Council.

### Producer Members

Name	Location / District	Status	Term Ends
Mary Borba Parente	Chino — Southern California	Reappointed	10-31-09
Paul Rollin	Riverdale — Southern San Joaquin	Reappointed	10-31-09
John Zonneveld, Sr.	Laton — Southern San Joaquin	Reappointed	10-31-09
Fred Denier	Galt — Northern California	New Appointee	10-31-09

### Handler Members

Name	Business	Status	Term Ends
Herm Benedetti	Clover Stornetta Farms	Reappointed	10-31-09
Dennis Brimhall	Super Store Industries	Reappointed	10-31-09
Randall Dei	Safeway, Inc.	New Appointee	10-31-09
Alan Pierson	Land O' Lakes	Reappointed	10-31-09

CDFA appreciates all those who participated in the nomination/preference voting process. If you have questions about the Dairy Council of California, please call Peggy Biltz, CEO of the Dairy Council, at (916) 263-3560 or Dennis Manderfield of the CDFA Marketing Branch at (916) 341-6005.

## Idaho Dairy Tests Earth-Friendly Way to Dispose of Waste

Russ Davis, president of Organix Inc., a Washington State-based solid-waste company, announced it has completed a pilot program at Whitesides Dairy near Rupert, Idaho, that proved dairies can get rid of all their waste in an environmentally friendly way and make money at the same time.

Davis claims that this technological revolution could forever change the way dairies dispose of waste, utility companies obtain natural gas and homeowners grow flowers. Organix developed a technique that turns solid waste from anaerobic digesters — machines that transform cow manure into valuable methane gas — into a peat moss-like substance that can be sold to nurseries, landscape companies, soil blenders and homeowners.

One problem: There is only one digester in Magic Valley — at Whitesides Dairy.

Two years ago, Idaho-based Intrepid Technology and Resources built a prototype digester at Whiteside Dairy that runs at a cost of about \$1,000 per cow. The Whitesides prototype was the first American digester to produce pipeline-grade methane gas, the main component of natural gas. Intrepid is expanding at Whitesides from five methane tanks to 10 to accommodate more cows. After updates, the plant will go from using 30 percent of the dairy's waste to 100 percent. Intermountain Gas Co. will buy methane from the updated Whitesides project for its customers.


Basically, a dairy producer using the Intrepid digester and the Organix moss machine can eliminate their operation's waste entirely, leaving only irrigation-quality water as a byproduct.

Davis said Organix has received letters from national companies that want to buy the peat moss substitute — a product that Davis said is better than the real thing because it contains more nutrients for about the same cost.

Here are the basics of the system:


1. Manure is fed into an anaerobic digester — a machine that uses bacteria to produce methane gas from manure. Irrigation-quality water and solid waste are byproducts of the process.
2. The methane gas from the digester will be transported by truck to a gas facility and mixed with natural gas pumped from wells. The peat moss-like

substance is made in a machine that attaches to the digester.


3. Ultimately, the gas can be delivered by pipes to homes. The moss-like substance is bagged at a separate facility and used by nurseries, landscape companies and other groups to grow plants. 

## National Animal Health Monitoring System, Dairy 2007

In January 2007, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service's (APHIS) National Animal Health Monitoring System (NAHMS) will launch its fourth national study of the U.S. dairy industry, Dairy 2007. Dairy producers in California and 16 other top dairy States will be asked to participate in this valuable study. It will take an indepth look at the health and health-management issues facing the U.S. dairy industry.

Participation in all NAHMS studies is voluntary and confidential. If you are selected to participate in Dairy 2007, representatives from the California office of USDA's National Agricultural Statistics Service (NASS) will visit you to complete a questionnaire. NASS will contact selected dairy producers between January 1 and January 31, 2007. If you choose to continue in the study, veterinary medical officers and/or animal health technicians will visit and explain further phases of the study. For additional information, please contact Sarah Hoffman at (800) 851-1127 

## Federal Orders Receive Tentative Final Decision

In late November, a tentative decision was announced that would change the make allowances in the minimum class price formulas in all federal milk orders. The make allowance for butter would increase from \$0.1150 to \$0.1202 per pound; the make allowance for cheese would increase from \$0.1650 to \$0.1682 per pound; the make allowance for NFDM would increase from \$0.1400 to \$0.1570 per pound; and the make allowance for dry whey would increase from \$0.1590 to \$0.1956 per pound. The adoption of these new make allowances serves to approximate the average cost of producing cheese, butter, NFDM and dry whey for manufacturing plants located in Federal milk makreting areas. 



# Corn Is Booming . . . Ethanol Heats Up

*Excerpt from Wall Street Journal*

The ethanol-fuel industry is booming. Over the summer, the corn-to-fuel industry was experiencing windfall profits as the price of oil soared. The ethanol industry's continuing expansion and its ravenous appetite for corn are helping ignite the biggest bull market for grain since the 1970s, when the former Soviet Union suddenly emerged as a huge customer.

The price for corn has jumped nearly 55% since mid-September, when U.S. corn farmers began harvesting their third-biggest crop ever. Grain prices usually slump to their lowest levels of the year during the harvest season. Yet the price of corn shot through the rarely breached \$3-a-bushel mark and appears headed higher.

"The consequences of ethanol are the biggest thing going on in agriculture today," says Keith Collins, chief economist of the U.S. Agriculture Department. "We are talking about a higher new benchmark for corn."

The prospect for a new plateau in corn prices represents a shift in the balance of power in the farm sector. It also portends headaches for global food producers, which have benefited for nearly a decade from an abundant and cheap supply of ingredients made from U.S. crops, such as corn.

Corn is used for everything from fattening pigs and chickens to making soda pop and breakfast cereal. The corn rally is hitting packaged food brands already coping with a sharp run-up in wheat and sugar costs this year. "It's just a story of commodities," said Kellogg Co. Chief Financial Officer Jeffrey Boromisa late last month when explaining to analysts why the breakfast-cereal company's third-quarter gross profit margin declined from a year ago.

Livestock farmers are feeling the higher corn prices. Dairy farmer Mike Aardema, who milks 4,000 cows near Burley, Idaho, says the corn rally is increasing his livestock feed costs by hundreds of thousands of dollars a year. A dairy cow must eat roughly 10 pounds of corn daily in order to produce milk. In the ranching industry, it takes six pounds of corn to produce one pound of beef.

This rally is the first in decades that isn't driven by crop disasters or surges in export demand, the effects of which have tended to fade quickly and leave the agriculture sector with a brutal hangover. To be sure, economists such as Michael Swanson at Wells Fargo


& Co., worry that the ethanol industry is growing too quickly, and any shakeout could quickly deflate corn prices. Rising ethanol supplies and falling gasoline prices have combined to cut the spot price of a gallon of ethanol by 45% from its record high in the summer. A surge of Brazilian imports of sugarcane-derived ethanol has contributed to the price decline.

But the ethanol industry is still so profitable, thanks in part to federal tax incentives and state mandates, that analysts are beginning to calculate that it would take corn prices of \$4 a bushel to quell the industry's demand. A level that high would send an inflationary ripple through many products in the American shopper's grocery bag.

Such a high price for corn at harvest will likely spur farmers to convert pastures and idled land into new cornfields next spring. That could lift sales by companies such as Deere & Co. of tractors and Monsanto Co. of genetically modified seed. Prices of soybeans, oats, sorghum and barley have climbed in recent weeks, too. Processors that depend on those crops are suddenly willing to pay more in order to discourage growers from shifting their farms to corn.

With 106 ethanol plants already in operation, an additional 48 plants are under construction and seven are undergoing expansion, according to Renewable Fuels Association, an ethanol trade group. The U.S. Agriculture Department is predicting that the ethanol industry will consume 2.15 billion bushels of this year's corn crop. That amount represents 20% of the total U.S. corn harvest and 63% more corn than the industry used just two years ago. Within a year or so, the U.S. will probably be using more corn to make fuel than it ships to foreign customers. One result of that growth is that the food industry will have to become accustomed to far less corn laying around in storage as a hedge against crop disasters.

According to a monthly Agriculture Department forecast, the expected corn harvest of 10.9 billion bushels is about one billion bushels short of demand in the next 12 months. That will help draw down supplies to the tightest level since 1995, when a summer heat wave devastated Midwest crops.

At the Lincolnway Energy plant in Nevada, Iowa, which started producing ethanol in May, the drop in ethanol prices is doing little to dissuade company officials from plans to build a second ethanol plant in nearby Des Moines. One reason: Even though rising corn prices make big profits harder to obtain, many of the plant's owners are also corn farmers. They are betting that any thinning of their dividend checks from the plant will be offset by higher corn income. 

## CWT Accepts Export Assistance Bids


Cooperatives Working Together (CWT) announced acceptance of thirteen export assistance bids for the sale of cheese and anhydrous milkfat.

Bids are from Dairy Farmers of America of Kansas City, MO: one for the export of 83 metric tons (182,600 pounds) of anhydrous milkfat to Mexico; a second for the export of 19 metric tons (41,800 lbs.) of Cheddar cheese to Panama; a third for the export of 13 metric tons (28,600 lbs.) of Monterey Jack cheese to Japan; and a fourth for the export of 3 metric tons (6,600 lbs.) of Mozzarella cheese to Japan. In addition, other bids are from Land O'Lakes of Arden Hills, MN: one for the export of 40 metric tons (88,000 lbs.) of Mozzarella cheese to South Korea; 20 metric tons (44,000 lbs.) of Mozzarella cheese to Japan; 40 metric tons (88,000 lbs.) of Mozzarella cheese to Jordan; 20 metric tons (44,000 lbs.) of Mozzarella cheese to El Salvador; and bids for mixed consumer-packaged cheeses to the following destinations: 17 metric tons (37,400 lbs.) to Saudi Arabia; 11 metric tons (24,200 lbs.) to the United Arab Emirates; 3 metric tons (6,600 lbs.) to Bahrain; and 3 metric tons (6,600 lbs.) to Kuwait. This is the first CWT-facilitated export to Bahrain.

These accepted bids increase CWT's year to date YTD) export obligations for cheese to 5,330 metric tons (11.7 million lbs.), and its YTD anhydrous milkfat export obligations to 2,087 metric tons (4.59 million lbs.). In addition, CWT's YTD butter export obligations are 5,884 metric tons (12.9 million lbs.), and its YTD whole milk powder export obligations are 1,738 metric tons (3.8 million lbs.).

Previous shipments facilitated by CWT's export assistance program have gone to Algeria, Bahrain, Barbados, China, Denmark, the Dominican Republic, Egypt, El Salvador, Germany, Guatemala, Honduras, Hong Kong, India, Indonesia, Israel, Japan, Jordan, Kuwait, Lebanon, Mexico, Morocco, the Netherlands, Nicaragua, Oman, Qatar, Panama, Philippines, Romania, Russia, Saudi Arabia, Singapore, South Korea, Taiwan, Trinidad, Tunisia, Turkey, the United Arab Emirates, and Vietnam.

Through CWT's Export Assistance program, transactions occur as overseas buyers are found for the products, and as CWT's members bid to be compensated for selling cheese, butter, anhydrous milk fat and whole milk powder to those importers.

Cooperatives Working Together is being funded by dairy cooperatives and individual dairy farmers, who are contributing 10 cents per hundredweight assessment on their milk production through December 2007. 

## National Dairy Situation and Outlook – USDA Estimates

### Milk Production and Cow Numbers

Monthly: Compared to 2005, USDA estimates that overall milk production across the U.S. was up 1.7% in October, led by Texas' 9.1% growth in milk production (on 18,000 more cows and 55 more pounds per cow). California's estimated production was up 2.3% (on 10,000 more cows and 30 more pounds per cow). Among the western states, Arizona was up 1.7%; New Mexico up 2.2%; and Washington was down -2.4%. Two of the top 10 states reported a production decrease.

Quarterly: For the third quarter of 2006 compared to the second quarter of 2006, U.S. milk cow numbers decreased to 9.117 million, production per cow was down 4.5%; the net effect was a 4.7% decrease in milk production to 44.7 billion pounds. USDA projects that for the fourth quarter of 2006 compared to the third quarter of 2006, U.S. milk cow numbers will decrease 10,000 cows to 9.105 million cows, production per cow will be down two pounds per cow; the net effect would be relatively no change in milk production to 44.7 billion pounds.

### Milk Prices

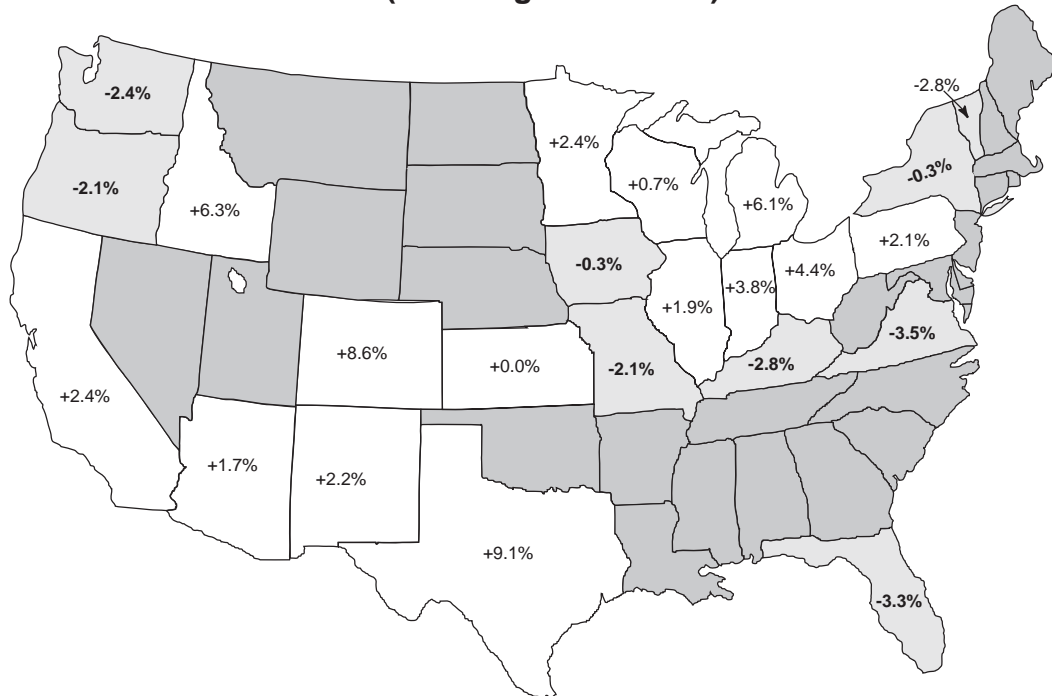
Comparing the third quarter of 2006 to the second quarter of 2006, U.S. average milk prices were up to \$12.23/cwt. USDA projects that for the fourth quarter of 2006, U.S. average all-milk prices will be \$13.50-13.80/cwt.; Class 4b prices will be \$12.17-12.47/cwt; and Class 4a prices will be \$11.72-12.12/cwt.

### Utility Cow Prices

Comparing the third quarter of 2006 to the second quarter of 2006, average U.S. utility cow prices were up \$1.50/cwt. to a national average of \$49.28/cwt. USDA projects that utility cow prices will average \$48-50 in the fourth quarter of 2006.

Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook." 

## October Milk Production in the Top 23 States (% Change from 2005)



For the U.S. overall, comparing October 2006 to October 2005:

- U.S. Milk production during October was up 1.7%
- The number of cows on farms was 9.107 million head, up 47,000 head
- Production per cow averaged 1,631 pounds, 20 pounds more than October 2005
- Nine of the top twenty-three milk producing states showed an decrease in milk production

As reported by USDA  
and CDFA (for California)

## Milk Production Cost Comparison Summary for California <sup>1/</sup> By Quarter, 2006-2007

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
<i>Dollars per Hundredweight</i>										
<b>1st Quarter</b>										
Total Costs	15.35		12.32		11.72		11.76		12.01	
Total Costs & Allowances*	16.93		13.82		13.24		13.07		13.52	
<b>2nd Quarter</b>										
Total Costs	14.22		12.36		12.47		11.99		12.43	
Total Costs & Allowances*	15.76		13.88		14.00		13.31		13.94	
<b>3rd Quarter</b>										
Total Costs										
Total Costs & Allowances*										
<b>4th Quarter</b>										
Total Costs										
Total Costs & Allowances*										

\* Includes an allowance for management and a return on investment

## Hundredweight Pool Prices

Month	Quota	Overbase
April	\$15.06	\$13.36
May	\$14.60	\$12.90
June	\$14.56	\$12.86
July	\$14.99	\$13.29
August	\$14.65	\$12.95
September	\$15.26	\$13.56
October	\$15.07	\$13.37
November	\$14.35	\$12.65
December	\$14.41	\$12.71
January '06	\$13.91	\$12.21
February	\$12.75	\$11.05
March	\$12.19	\$10.49
April	\$11.90	\$10.20
May	\$11.90	\$10.20
June	\$11.90	\$10.20
July	\$11.71	\$10.01
August	\$12.13	\$10.43
September	\$12.80	\$11.10
October	\$12.87	\$11.17

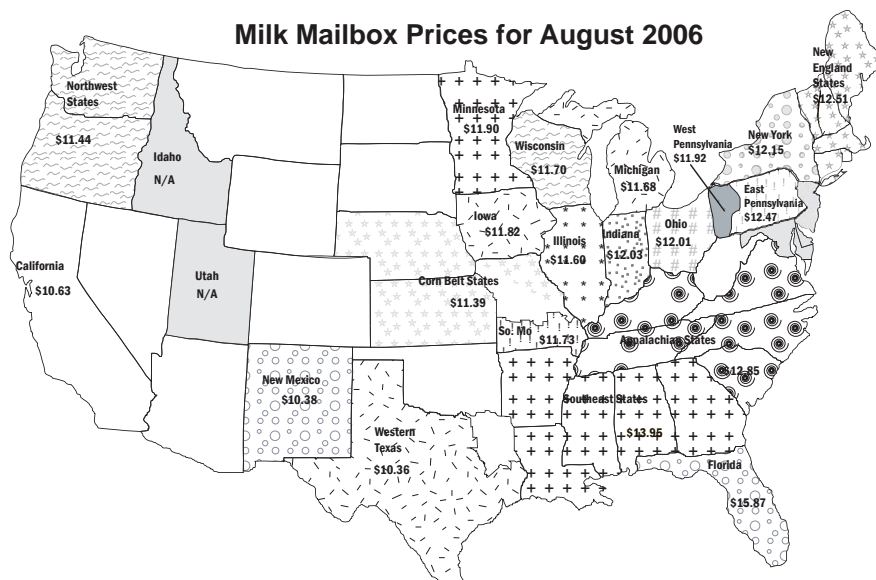
## Milk Mailbox Prices

### Milk Mailbox Prices in Dollars per Hundredweight

	February	March	April	May	June	July	August
California <sup>1</sup>	\$11.52	\$11.05	\$10.64	\$10.45	\$10.42	\$10.16	\$10.63
USDA <sup>2</sup>	\$14.43	\$13.57	\$12.64	\$11.92	\$11.74	\$11.66	\$11.92

<sup>1</sup> California mailbox price calculated by CDFA.

<sup>2</sup> All federal milk market order weighted average, as calculated by USDA.



In August 2006, mailbox prices for selected reporting areas in Federal milk orders averaged \$11.92 per cwt., \$0.26 more than the figure for the previous month. The component tests of producer milk in August 2006 were: butterfat, 3.57%; protein, 2.97%; and other solids 5.70%. On an individual reporting area basis, mailbox prices decreased in all reporting areas except seven, and ranged from \$15.87 in Florida to \$10.38 in New Mexico. In August 2005, the Federal milk order all-area average mailbox price was \$14.65, \$2.73 higher.

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